

SOUTH AFRICA

MACROECONOMIC BACKGROUND

The South African economy has benefited enormously from maintaining credibility as a politically sound country after the change in government following apartheid. Confidence in the economy has led to a more stable economic background than was expected. The average growth rate over the last 10 years was 2.7% and in 2004 was 3.7%. Nominal GDP was R1.2 trillion (US\$ 140 billion) in 2003 and GDP per capita in PPP terms US\$10,271. Inflation has fallen significantly in South Africa and is now relatively low in historic terms at 5.8% at the end of 2003. Interest rates (the repurchase rate) in South Africa have also fallen over time, from double digit levels to 7.5% at the end of 2004. Unemployment remains a significant problem in South Africa, and even on the most conservative measure is running at almost 30%.

DEMOGRAPHICS

The total population of South Africa was 45.3 million in 2002. Between the 1996 and 2001 Census the population grew by 10%. This accounts for 0.7% of the total world population. More than half of the population is less than 25 years old. The number of households in 2003 was 12.5 million and the household size was 3.6.

The biggest issue in demographic terms in South Africa is the prevalence of AIDS/HIV. Population estimates of Statistics South Africa, released in July 2004 place the number of South Africans with HIV at 3.8 million, corresponding to 15.2 percent of the adult population. The epidemic has led to a sharp reduction in life expectancy, from 64 years in 1994 to 49 years in 2001, although the average expectancy for those not infected is in the late 60s. Nearly one-quarter of adults aged 15–49 are estimated to be infected with HIV/AIDS and this has implications for housing demand, although lowest incidence of the disease is in the more skilled and affluent sectors of the society; the group most likely to become owner occupiers.

HOUSING MARKET

There are two housing markets in South Africa: the low-income market and the mainstream market. The more sophisticated mainstream market has been performing well. Real average house prices in South Africa were falling through much of the 1990s with a small upturn in 1994 and a larger one in 1998 at which point interest rates were increased sharply. It is not until 2000 that prices have begun to increase again, and since then annual house price inflation has been in double digits. A number of economic factors have contributed to this, not least falling interest rates. End of period mortgage rates have fallen from over 23% in 1998 to 11% at the end of 2004. Political stability has also encouraged investment from overseas and this has further stimulated growth.

The rate of home ownership in South Africa was estimated at 89% in 1992. This had fallen to 76% by the 1996 Census and to 56% by the 2001 census survey. Of this 56%, 41% owned their properties without a mortgage. Falling home ownership is inconsistent with the government policy and suggests there may be problems with the data. An explanation may lie in changes in the census questionnaire, or perhaps increased investment in rental property as house prices have increased, but there is no concrete evidence for this.

The number of completions of houses and flats has picked up since 1998, but there remains a shortage in South Africa in spite of government targets to increase output. The proportion of South African households living in formal dwellings increased to 74% by 2003, with the highest proportions in the white and Asian communities¹. The average number of completions of houses and flats increased by 19% in 2004 after a few years of falling output.

The number of housing transactions increased dramatically from 2000 reflecting the increase in demand as interest rates fell, but is now showing signs of levelling off.

HOUSING FINANCE

The housing finance system has had little impact on the low-income segment of the population and attempts to expand credit into it through micro-loans have been so far not been very successful. There have been a number of government backed schemes to promote lending in the low-income sector through subsidy, guarantee or management of bad debts. However the formal banking sector still finds it risky to act in the market but is attempting to increase lending volumes in this sector. A voluntary initiative by the private sector

to improve access to finance for lower income sectors of the market with a target of lending R42 billion (US\$7.5 billion) over five years was agreed at the end of 2003. The systems to implement this are taking time to develop and the banks are hoping for some form of government underwriting to assist lending in this sector.

A sophisticated and effective housing finance system does exist for the middle and upper income segments of the housing market. The total value of residential mortgage loans was R328 billion (US\$58 billion) at the end of 2004. Residential data is only available since 2000, but over this period has increased from less than R200 billion (US\$26.4 billion). Residential debt accounts for about three quarters of all mortgages but it is difficult to make estimates going back before 2000 given the change in housing policy since then. The residential debt to GDP ratio in 2004 was 24.8% and the per capita debt outstanding is estimated at R25,000 (US\$4,450).

The housing finance sector is dominated by the large banks but there are over 1,000 micro lenders in addition to social housing institutions NGOs and local and central government organisations. Mortgages are typically based on variable rates. Fixed mortgages are also offered, but mostly for periods of up to two years. Mortgage lending is funded primarily by deposits.

GOVERNMENT POLICY AND OBJECTIVES

The focus of South Africa's current housing policy has been on delivering owner-occupied housing. Section 26 of the Constitution of the Republic of South Africa, 1996, states that everyone has the right to have access to "adequate housing" A number of government subsidy schemes are aimed at encouraging this and have been focussed on the most low income sectors of society. Around 1.5 million properties have been built and transferred to this sector where new owners are restricted from selling their property for eight years. The government and private sector are aiming to encourage a properly functioning market in this sector to make it sustainable in the future. More detailed information on specific schemes can be obtained by following the links below.

Transfer duties are charged at the following rates on property transfers. 0% property up to R150,000; 5% 150,001 to R320,000 and on property valued above R 320,000 it amounts to R8,500 plus 8 percent on the value above. The 2004/05 budget also announced that the 0.2% stamp duty on mortgages secured by property would be abolished with effect from March 1.

SUMMARY DATA FOR SOUTH AFRICA. 1995-2004

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Real GDP growth	3.7%	2.8%	3.6%	2.7%	3.5%	2.0%	0.8%	2.6%	4.3%	3.1%
Unemployment rate	27.8%	28.4%	30.5%	29.5%	25.8%	23.3%	25.2%	21.0%	19.3%	16.9%
Consumer Price inflation	1.4%	5.8%	9.2%	5.7%	5.4%	5.2%	6.9%	8.6%	7.3%	8.7%
Total mortgage debt outstanding, R billion	412	332	286	259	226	203	195	178	159	136
Residential mortgage debt, R billion	328	261	222	199	n/a	n/a	n/a	n/a	n/a	n/a
Residential mortgage debt /GDP Ratio	24.8%	21.5%	19.8%	20.3%	n/a	n/a	n/a	n/a	n/a	n/a
Residential mortgage debt/household, R	25,083	20,764	18,886	17,780	n/a	n/a	n/a	n/a	n/a	n/a
No Households, millions	13.1	12.5	11.8	11.2	10.8	10.4	9.9	9.5	9.1	8.8
Home ownership rate	n/a	n/a	n/a	56%	n/a	n/a	n/a	n/a	77%	n/a
House price index (2000=100)	211.2	159.8	131.5	114.2	100.0	85.4	81.7	71.5	65.7	63.4
Annual house price growth	32.2%	21.5%	15.2%	14.2%	17.1%	4.6%	14.2%	8.8%	3.7%	7.7%
Housing completions (000s)	68	57	61	46	56	67	62	68	47	44
Home sales (000s)	109	150	149	143	127	108	109	138	144	146
Mortgage interest rates	11.00%	11.83%	17.00%	13.00%	14.50%	15.50%	23.33%	19.33%	19.33%	18.25%
Gross mortgage advances R million	111,472	86,685	74,399	56,414	37,595	n/a	n/a	n/a	n/a	n/a
Exchange rate US\$ per R1	0.18	0.15	0.12	0.08	0.13	0.16	0.17	0.21	0.21	0.27

Source: IMF, Statistics South Africa; ABSA

Notes:

1. Unemployment narrow definition end period
2. Gross advances bank and mutual bank sector only
3. Residential debt only available from 2000
4. Mortgage rates and exchange rates are end of period rates

January 2005

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ⁱ Formal dwellings include a house on a separate stand, a flat or apartment in a block of flats, a townhouse, a room in a backyard, and a room or flatlet on a shared property.